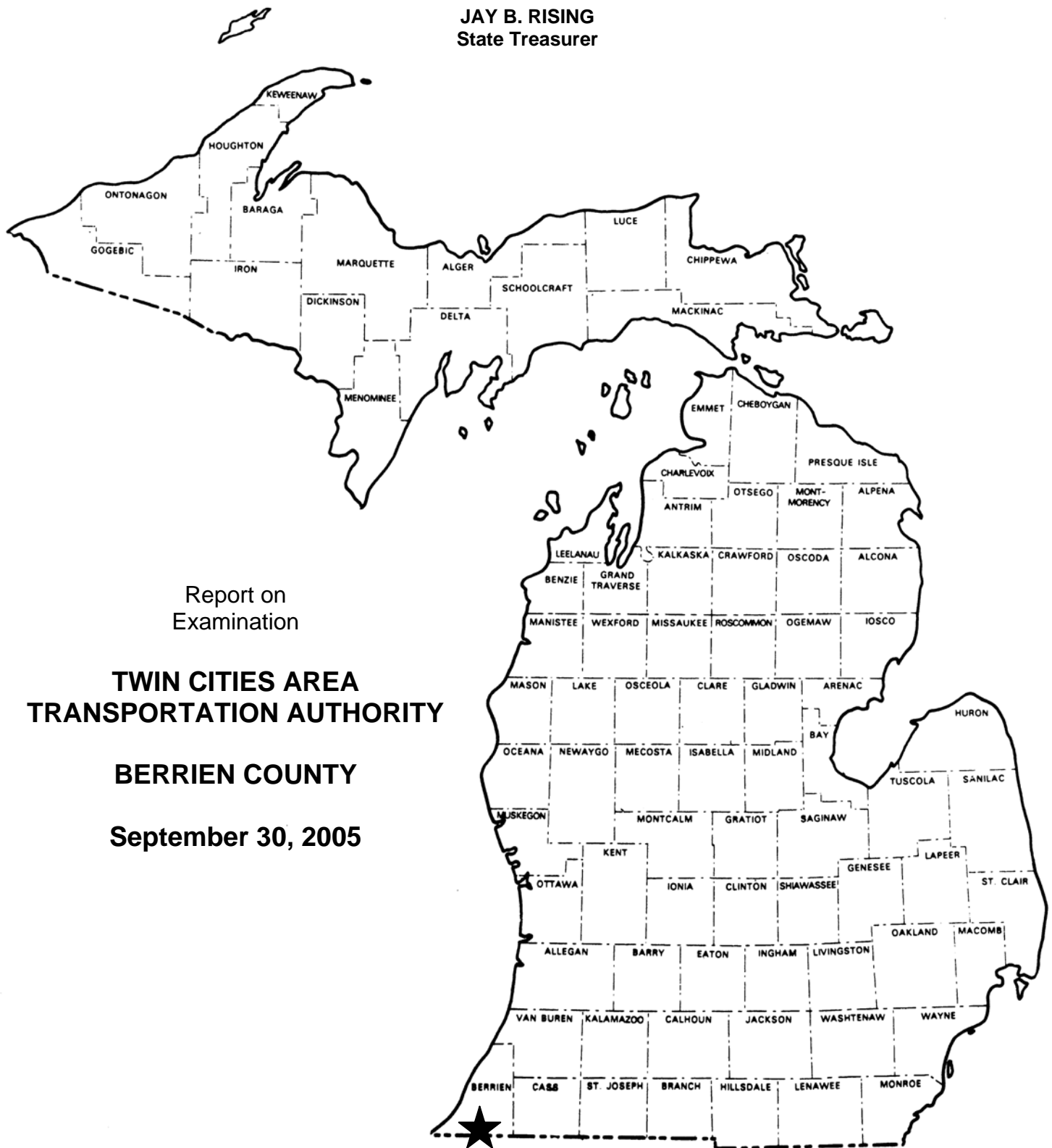


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Local Audit and Finance Division
Bureau of Local Government Services

TWIN CITIES AREA TRANSPORTATION AUTHORITY

BOARD OF TRUSTEES

Charles Yarbrough
Chairman

Janice McAlpine
Secretary/Treasurer

Willie Kelly
Trustee

Herbert Singleton
Trustee

Wilbert Brown
Executive Director

Bill Purvis
Assistant Director

CITY OF BENTON HARBOR POPULATION--2000
12,818

TAXABLE VALUATION--2004
\$62,826,707



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

November 9, 2005

Board of Trustees
Twin Cities Area Transportation Authority
275 East Wall Street
P.O. Box 837
Benton Harbor, Michigan 49023-0837

RE: Unqualified Opinions on Basic Financial Statements and Supplementary
Schedule of Expenditures of Federal and State Awards--Governmental Entity

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying basic financial statements of the Twin Cities Area Transportation Authority, a component unit of the City of Benton Harbor, as of and for the year ended September 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Twin Cities Area Transportation Authority as of September 30, 2005, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2005 on our consideration of the Twin Cities Area Transportation Authority's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed

in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Twin Cities Area Transportation Authority, taken as a whole. The accompanying supplemental information in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards (Schedule 4) is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. With the exception of Schedule 3 marked "unaudited," the information on the schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

The Management's Discussion and Analysis on pages 1 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

TWIN CITIES AREA TRANSPORTATION AUTHORITY

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TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

Our discussion and analysis of the Twin Cities Area Transportation Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Authority and present a longer-term view of the Authority's finances.

Overview of the Financial Statements

This annual report consists of three parts--management's discussion and analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Authority:

- The first two statements are financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two statements report the Authority's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Authority's financial health or position.
- The remaining statement is a statement of cash flows to demonstrate the activities of the Authority as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Authority as a Whole

The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets include all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Authority you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Authority's buses, and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Authority as a Whole

The Authority's net assets decreased approximately 6%, or \$73,457, from \$1,185,111 to \$1,111,654 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Net Assets

The unrestricted net assets increased by \$14,086 during 2005.

The investment in capital assets decreased \$87,543. The decrease is due to the depreciation expense for the year, which increased the accumulated depreciation.

Net assets as of the fiscal year ended September 30, 2005, compared to the prior fiscal year, are as follows:

	<u>2004</u>	<u>2005</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$ 208,541	\$ 268,294	\$ 59,753	28.65%
Capital Assets	<u>1,023,685</u>	<u>936,142</u>	<u>(87,543)</u>	<u>-8.55%</u>
Total Assets	<u>1,232,226</u>	<u>1,204,436</u>	<u>(27,790)</u>	<u>-2.26%</u>
Current Liabilities	<u>47,115</u>	<u>92,782</u>	<u>45,667</u>	<u>96.93%</u>
Total Liabilities	<u>47,115</u>	<u>92,782</u>	<u>45,667</u>	<u>96.93%</u>
Net Assets				
Invested in Capital Assets	1,023,685	936,142	(87,543)	-8.55%
Unrestricted	<u>161,426</u>	<u>175,512</u>	<u>14,086</u>	<u>8.73%</u>
Total Net Assets	<u><u>\$1,185,111</u></u>	<u><u>\$1,111,654</u></u>	<u><u>\$(73,457)</u></u>	<u><u>-6.20%</u></u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

Changes in net assets for the fiscal year ended September 30, 2005, compared to the prior fiscal year, are as follows:

	<u>2004</u>	<u>2005</u>	<u>Variance</u>	<u>%</u>
Operating Revenue				
Passenger Fares	\$ 169,098	\$ 177,732	\$ 8,634	5.11%
Special Transit Fares	30,069	43,836	13,767	45.78%
Auxiliary Transportation Revenues	6,826	6,783	(43)	-0.63%
Nonoperating Revenue				
Local Contributions				
Tax Levy	80,689	78,296	(2,393)	-2.97%
State of Michigan Operating Grants				
Local Bus Operating Assistance (Act 51)	575,816	538,809	(37,007)	-6.43%
Project Zero	56,376	51,352	(5,024)	-8.91%
State of Michigan Capital Grants				
Capital Grant (Section 5307)	47,871	39,279	(8,592)	-17.95%
Federal Operating Grants				
USDOT Operating Grant (Section 5307)	473,451	534,275	60,824	12.85%
Preventive Maintenance			-	#DIV/0!
Federal Capital Grants				
Capital Grant (Section 5307)	191,482	157,113	(34,369)	-17.95%
State and Federal Grants--Prior Year Adjustments	(2,110)	-	2,110	-100.00%
Interest Earned	739	2,714	1,975	267.25%
Sale of Fixed Assets	5,000	12,075	7,075	100.00%
Total Revenue	<u>1,635,307</u>	<u>1,642,264</u>	<u>6,957</u>	<u>0.43%</u>
Operating Expense				
Salaries and Wages	1,040,805	1,011,351	(29,454)	-2.83%
Depreciation	266,149	283,935	17,786	6.68%
Other	380,277	445,435	65,158	17.13%
Total Operating Expense	<u>1,687,231</u>	<u>1,740,721</u>	<u>53,490</u>	<u>3.17%</u>
Excess (Shortage) Before Transfers	(51,924)	(98,457)	(46,533)	89.62%
Transfers In--Primary Government	25,000	25,000	-	0.00%
Increase in Net Assets	<u>(26,924)</u>	<u>(73,457)</u>	<u>(46,533)</u>	<u>172.83%</u>
Ending Net Assets	<u><u>\$1,185,111</u></u>	<u><u>\$ 1,111,654</u></u>	<u><u>\$(73,457)</u></u>	<u><u>-6.20%</u></u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

There was an increase in Special Transit Fares due to several new contract customers. State Operating was reduced because of a reduction in the percentage of reimbursement by the State of Michigan and the Federal Operating increased because we knew the State Operating would be reduced. Sale of Assets increased because of the sale of buses.

Prior to the beginning of any year, the Authority's budget is compiled based upon certain assumptions and facts available at that time. The final budget for 2005 was \$1,397,633. The expenses were over the budget this year due to the increase in the cost of fuel and insurance.

Capital Asset Administration

As of September 30, 2005, the Authority had \$936,142 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$87,543 or 8.55% as follows:

	2004	2005	Total Percentage Change 2003-2004
Capital Assets Not Being Depreciated			
Land	\$ 62,700	\$ 62,700	0.00%
Subtotal	62,700	62,700	0.00%
Capital Assets Being Depreciated			
Building	1,504,530	1,504,530	0.00%
Other Vehicles	113,418	113,418	0.00%
Buses	1,092,909	1,016,827	-6.96%
Shop Equipment	137,769	137,769	0.00%
Office Equipment	128,572	137,316	6.80%
Vehicle Locator	155,553	155,553	0.00%
Subtotal	3,132,751	3,065,413	-2.15%
Total Capital Assets	3,195,451	3,128,113	-2.11%
Total Accumulated Depreciation	2,171,766	2,191,971	0.93%
Total Net Capital Assets	\$ 1,023,685	\$ 936,142	-8.55%

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget

The 2006 budget will increase to \$1,491,951 due to the increase in health and workmans' compensation insurance, and fuel.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority's office at 275 East Wall Street, Benton Harbor, Michigan 49023-0837.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
STATEMENT OF NET ASSETS
September 30, 2005

EXHIBIT A

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 14,374
Accounts Receivable	6,358
Due From State Government	7,227
Due From Federal Government	140,217
Due From Primary Government	30,475
Inventory	16,220
Prepaid Expenses	<u>53,423</u>

Total Current Assets 268,294

Noncurrent Assets

Capital Assets	<u>936,142</u>
----------------	----------------

Total Noncurrent Assets 936,142

Total Assets \$1,204,436

LIABILITIES

Current Liabilities

Accounts Payable	\$ 79,676
Accrued Wages and Fringe Benefits	<u>13,106</u>

Total Current Liabilities 92,782

NET ASSETS

Invested in Capital Assets--Net of Related Debt	936,142
Unrestricted	<u>175,512</u>

Total Net Assets \$1,111,654

The Notes to Financial Statements are an integral part of this statement.

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
For the Year Ended September 30, 2005**

EXHIBIT B

Operating Revenue	
Passenger Fares	\$ 177,732
Special Transit Fares	43,836
Auxiliary Transportation Revenues	<u>6,783</u>
Total Operating Revenue	<u>228,351</u>
Operating Expense	
(Schedule 1)	<u>1,740,721</u>
Total Operating Expense	<u>1,740,721</u>
Operating Income (Loss)	(1,512,370)
Nonoperating Revenue	
Local Contributions	
Tax Levy	78,296
State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	538,809
Project Zero	51,352
Federal Operating Grants	
USDOT Operating Grant (Section 5307)	534,275
Gain on Sale of Assets	12,075
Interest Earned	<u>2,714</u>
Total Nonoperating Revenue	<u>1,217,521</u>
Income (Loss) Before Capital Contributions and Operating Transfers	(294,849)
Capital Contributions	
State of Michigan Capital Grants	
Capital Grant	39,279
Federal Capital Grants	
Capital Grant (Section 5307)	157,113
Transfers In From Primary Government	<u>25,000</u>
Change in Net Assets	(73,457)
Total Net Assets--October 1, 2004	<u>1,185,111</u>
Total Net Assets--September 30, 2005	<u><u>\$ 1,111,654</u></u>

The Notes to Financial Statements are an integral part of this statement

TWIN CITIES AREA TRANSPORTATION AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2005

EXHIBIT C

Cash Flows From Operating Activities	
Cash Received From Customers	\$ 232,662
Cash Payments to Employees for Services and Benefits	(1,033,218)
Cash Payments to Suppliers for Goods and Services	(420,843)
	<hr/>
Net Cash Provided by Operating Activities	(1,221,399)
	<hr/>
Cash Flows From Noncapital Financing Activities	
State Grants	588,568
Federal Grants	440,551
Property Tax	73,912
Transfers In From Primary Government	25,000
	<hr/>
Net Cash Provided by Noncapital Financing Activities	1,128,031
	<hr/>
Cash Flows From Capital and Related Financing Activities	
Purchase of Capital Assets	(196,392)
Capital Assets Purchased With State and Federal Grants	196,392
Sale of Fixed Assets	12,075
	<hr/>
Net Cash Provided From Capital and Related Financing Activities	12,075
	<hr/>
Cash Flows From Investing Activities	
Interest on Cash Equivalents	2,714
	<hr/>
Net Cash Provided by Investing Activities	2,714
	<hr/>
Net Decrease in Cash and Cash Equivalents	(78,579)
	<hr/>
Cash and Cash Equivalents at Beginning of the Year	92,953
	<hr/>
Cash and Cash Equivalents at End of the Year	\$ 14,374
	<hr/>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$(1,512,370)
	<hr/>
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Noncash Items)	
Depreciation Expense	283,935
(Increase) Decrease in Accounts Receivable	4,311
(Increase) Decrease in Inventory	(12,403)
(Increase) Decrease in Prepaid Expenses	(30,539)
Increase (Decrease) in Accounts Payable	67,534
Increase (Decrease) in Other Accrued Liabilities	(21,867)
	<hr/>
Net Cash Provided by Operating Activities	<u><u>\$ (1,221,399)</u></u>

The Notes to Financial Statements are an integral part of this statement.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the Twin Cities Area Transportation Authority. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

The Twin Cities Area Transportation Authority (Authority) was incorporated in the State of Michigan on July 1, 1974 under Public Act 55 of 1963. The purpose of the Authority is to acquire, own, operate, and manage a public transportation system within the boundaries of its participating municipality, the City of Benton Harbor. Given that the City of Benton Harbor has significant influence over the Authority and is the only participating municipality, the Twin Cities Area Transportation Authority is a component unit of the City of Benton Harbor. The Twin Cities Area Transportation Authority is, for financial purposes within generally accepted accounting principles, an enterprise fund of the City of Benton Harbor.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Twin Cities Area Transportation Authority conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Basis of Presentation

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets) report information of the activities of the Twin Cities Area Transportation Authority. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Authority's assets and liabilities with the difference being reported as either invested in capital assets or unrestricted net assets.

The Statement of Revenues, Expenses and Changes in Net Assets demonstrates the degree to which the operating expenses of a given function or segment are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function or segment. Operating revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among operating revenues are reported instead as nonoperating revenue.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial activities of the Authority are recorded in an enterprise fund. This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for providing bus services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of the bus services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as needed.

Inventories

Inventories of gas and parts are stated at the lower of cost (first-in, first-out) or market.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Twin Cities Area Transportation Authority's capital assets are recorded at cost. Costs relating to maintenance and repairs are charged to expense; whereas those for renewals and betterments, when significant in amount, are capitalized. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Operating Facility	2 to 20 years
Vehicles	3 to 7 years
Shop Equipment	3 to 10 years
Office Equipment	6 to 10 years

Depreciation expense for the year ended September 30, 2005 was \$283,935.

Property Taxes

Property taxes are levied each December 1 on the taxable valuation of properties located in the City of Benton Harbor as of the preceding December 31. The City of Benton Harbor's 2004 ad valorem tax was levied and collectible on December 1, 2004. It is the policy of Twin Cities Area Transportation Authority to recognize revenue from the current tax levy in the 2004/2005 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Authority's operations.

The 2004 real and personal taxable valuation of Benton Harbor property amounted to \$62,826,707. Ad valorem taxes of 1.0043 mills were levied for Twin Cities Area Transportation Authority operating purposes amounting to \$63,097.

Cash Equivalents

For the purposes of the statement of cash flows, demand deposits and short-term investments with a maturity date of 3 months or less when acquired are considered to be cash equivalents. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year

Twin Cities Area Transportation Authority operates on the fiscal year of the grantor, October 1 to September 30. The fiscal year differs from the June 30 fiscal year of the City of Benton Harbor.

NOTE C--DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the Twin Cities Area Transportation Authority are at local banks in the name of the Authority. Michigan Compiled Laws, Section 129.91 et al., authorizes the city to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Authority's deposits are in accordance with State statutory authority. The cash balance as presented in Exhibit A, includes \$230 in imprest cash.

The risk disclosures for the Authority's deposits, as required by GASB Statement No. 40, are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	<u>\$ 16,572</u>	<u>\$ 14,144</u>
Total	<u><u>\$ 16,572</u></u>	<u><u>\$ 14,144</u></u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE D--DUE FROM PRIMARY GOVERNMENT

The City of Benton Harbor owes the Authority \$30,475 for taxes collected on the fiscal year ended September 30, 2005.

NOTE E--ACCRUED EMPLOYEE BENEFITS

Accrued employee benefits for vacation and sick leave are as follows:

Vacation Leave

Employees with 5 full years or less of continuous full-time employment--80 hours per year.

Employees with more than 5, but 8 full years or less of continuous full-time employment--100 hours per year.

Employees with more than 8 full years of continuous full-time employment--120 hours per year.

Unused vacation leave is lost at the end of each calendar year and accumulates at the beginning of the year.

Sick Leave

Sick leave is earned at 20 hours per quarter with no maximum accumulation and is not payable at separation.

The Authority does not record any accrued liabilities for vacation, sick and personal leave in its financial statements.

NOTE F--PENSION PLAN

During fiscal year 1989/90, the Authority entered into a defined contribution pension plan agreement with Transamerica Life Insurance Company. The plan involves a Simplified Employee Pension (SEP) Individual Retirement Annuity (IRA), effective January 1, 1988, established by the Authority to provide benefits at retirement to all participating employees. To participate, an employee must have worked for the authority during at least six months of the immediately preceding five calendar years and earned at least \$300. Under the plan, the employer contributes 7.85% of employees' gross pay, and each employee has the option of contributing between 0-16% of his or her gross pay up to \$2,000 per calendar year.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE F--PENSION PLAN (Continued)

A defined contribution plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on the investments of those contributions.

At September 30, 2005, there were 32 plan members. In accordance with the plan provisions, for the fiscal year ended September 30, 2005, the Authority contributed \$40,172 and the employees contributed \$31,970.

NOTE G--DUE FROM STATE GOVERNMENT

The following amount was due at September 30, 2005:

State Operating Assistance for Fiscal Year 2002/2003	\$ 11,822
State Operating Assistance for Fiscal Year 2003/2004	(6,188)
State Operating Assistance for Fiscal Year 2004/2005	<u>1,593</u>
Total Due From State	<u><u>\$ 7,227</u></u>

NOTE H--DUE FROM FEDERAL GOVERNMENT

The following amount was due at September 30, 2005:

Federal Operating Assistance for Fiscal Year 2003/2004	\$ 9,577
Federal Operating Assistance for Fiscal Year 2004/2005	<u>130,640</u>
Total Due From Federal Government	<u><u>\$ 140,217</u></u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE I--CAPITAL ASSETS

Capital asset activity of the Authority for the current year was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 62,700			\$ 62,700
Subtotal	62,700	\$ -	\$ -	62,700
Capital Assets Being Depreciated				
Building	1,504,530			1,504,530
Other Vehicles	113,418			113,418
Buses	1,092,909	187,648	263,730	1,016,827
Shop Equipment	137,769			137,769
Office Equipment	128,572	8,744		137,316
Vehicle Locator	155,553			155,553
Subtotal	3,132,751	196,392	263,730	3,065,413
Less Accumulated Depreciation for				
Building	1,090,072	78,493		1,168,565
Other Vehicles	49,310	10,570		59,880
Buses	746,937	171,401	263,730	654,608
Shop Equipment	126,167	4,844		131,011
Office Equipment	119,096	3,075		122,171
Vehicle Locator	40,184	15,552		55,736
Subtotal	2,171,766	283,935	263,730	2,191,971
Net Capital Assets Being Depreciated	960,985	(87,543)	-	873,442
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$1,023,685</u>	<u>\$(87,543)</u>	<u>\$ -</u>	<u>\$ 936,142</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE J--POST-EMPLOYMENT BENEFITS

The Authority does not provide post-employment benefits at this time.

NOTE K--RISK MANAGEMENT

The Twin Cities Area Transportation Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Authority has purchased commercial insurance for business auto repairs, commercial general liability, commercial inland marine (radio and TV), commercial property (building and contents), computerized business equipment, workers' compensation and medical benefit claims. The Authority participates in the Michigan Transit Pool for claims relating to auto and general liability. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

The Michigan Transit Insurance Pool (Pool) was created pursuant to the provisions of Public Act 35 of 1951 and was incorporated under the Michigan Nonprofit Corporation Act, being MCL Sections 450.2101 et seq., as the Michigan Transit Pool, Inc. The Pool is to provide administrative loss protection programs for the members, to pool losses and claims, to jointly purchase commercial services, including claims adjusting, data processing, risk management consulting, loss prevention, legal and related services. The Michigan Transit Insurance Pool is a separate legal and administrative entity. Settled claims for the Pool have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE L--TRANSFER IN--PRIMARY GOVERNMENT

During the fiscal year ended September 30, 2005, the City of Benton Harbor appropriated \$25,000 to the Authority as an annual subsidy.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
OPERATING EXPENSES
For the Year Ended September 30, 2005

SCHEDULE 1

	Operations	Maintenance	General Administration	Total System
Labor				
Operators Salaries and Wages	\$ 349,573			\$ 349,573
Other Salaries and Wages	19,027	\$ 59,013	\$133,909	211,949
Dispatchers Salaries and Wages	109,139			109,139
Fringe Benefits	241,511	47,263	51,916	340,690
Services				
Advertising			4,056	4,056
Other Services	2,431	154,899	18,154	175,484
Contract Maintenance	3,852	10,977	1,520	16,349
Custodial		8,400		8,400
Materials and Supplies Consumed				
Fuel and Lubricants	105,086	228	1,933	107,247
Tires and Tubes	9,806			9,806
Other Materials and Supplies		9,896	7,444	17,340
Taxes and Fees			799	799
Utilities				
Other	937	21,879	4,064	26,880
Telephone	17,332		1,002	18,334
Miscellaneous Expenses				
Dues and Subscriptions	1,664			1,664
Travel and Meetings	584		951	1,535
Vending Expense			3,314	3,314
Drug Testing	2,067			2,067
Insurance				
Premiums for Public Liability and Property Damage	33,049			33,049
Other Insurance			10,383	10,383
Leases and Rentals	3,934	1,765	136	5,835
Depreciation	174,231	8,903	100,801	283,935
Total	\$ 1,074,223	\$ 323,223	\$ 343,275	\$ 1,740,721

TWIN CITIES AREA TRANSPORTATION AUTHORITY
NET ELIGIBLE COSTS COMPUTATIONS
OF GENERAL OPERATIONS
For the Year Ended September 30, 2005

SCHEDULE 2

	Federal Section 5307	State Operating Assistance
Operating Expenses		
Labor	\$ 670,661	\$ 670,661
Fringe Benefits	340,690	340,690
Services	204,289	204,289
Materials and Supplies	134,393	134,393
Taxes and Fees	799	799
Utilities	45,214	45,214
Casualty and Liability Costs	43,432	43,432
Miscellaneous	8,580	8,580
Interest	2,893	2,893
Leases and Rentals	5,835	5,835
Depreciation	283,935	283,935
Total Operating Expenses	1,740,721	1,740,721
Less: Ineligible Expenses		
Interest	2,893	2,893
Depreciation	283,492	283,492
Vending Machines	3,314	3,314
Project Zero	48,944	48,944
Dues and Subscriptions	25	25
Total Ineligible Expenses	338,668	338,668
Net Eligible Expenses	1,402,053	1,402,053
Maximum Section 5307 Reimbursement--Contract Limit	<u>\$ 534,275</u>	
Net Eligible State Operating Expenses		<u>1,402,053</u>
State Operating Assistance (38.43%)		<u>\$ 538,809</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY
MILEAGE DATA--UNAUDITED
For the Year Ended September 30, 2005

SCHEDULE 3

	<u>Public Transportation Mileage</u>
Demand-Response	
First Quarter	102,425
Second Quarter	108,364
Third Quarter	104,363
Fourth Quarter	<u>108,967</u>
Total Operation	<u><u>424,119</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (1) (2)
For the Year Ended September 30, 2005

SCHEDULE 4

	Federal CFDA Number	State Grantor Number	Federal Disbursements/ Expenditures	State Disbursements/ Expenditures	Receipts/ Revenues
US Department of Transportation Direct Pass Through US Department of Transportation Capital Assistance	20.507	MI-90-X424	\$ 157,113	\$ 39,279	\$ 196,392
Total Capital Assistance			157,113	39,279	196,392
US Department of Transportation Direct Pass Through US Department of Transportation Operating Assistance Section 5307	20.507	MI-90-X470-01	534,275		534,275 (3)
Michigan Department of Transportation Direct Pass Through the County of Berrien Operating Assistance Project Zero		97-0932		48,944	48,944
Michigan Department of Transportation Operating Assistance (Act 51)				538,809	538,809 (4)
Total Operating Assistance			534,275	587,753	1,122,028
Total Capital and Operating Assistance			\$ 691,388	\$ 627,032	\$ 1,318,420

The Notes to Schedule of Expenditures of Federal and State Awards are an integral part of this statement.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2005

1. The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all Federal and State awards programs of the Twin Cities Area Transportation Authority. Federal and State awards received directly from Federal or State agencies, as well as Federal or State awards passed through other government agencies, are included on the schedule.
2. The accompanying Schedule of Expenditures of Federal and State Awards is presented using the accrual basis accounting which is described in Note B of the Authority's general purpose financial statements.
3. Maximum Section 5307 operating assistance revenue can be 50% of Net Eligible Expenses as presented in Schedule 2, not to exceed the local match or contract limit. The Federal Section 5307 operating assistance of \$534,275 was recognized based on the contract limit.
4. State operating assistance of \$538,809 was recognized based on the net eligible cost computation presented as Schedule 2. The actual revenue to be received from the State is uncertain because the revenue is based on a fixed amount of statewide available funding. It could be as low as \$288,947, which is the 1997 floor; or as high as \$841,232, which is the statutory cap of 60% of eligible operating expenses. MDOT will recalculate the state operating assistance percentage in Schedule 2 after audited closeouts based on statewide eligible expenses.

Twin Cities Area Transportation Authority
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2005

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weakness(es) identified?	_____ Yes	_____ X	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	_____ Yes	_____ X	No
Noncompliance material to financial statements noted?	_____ Yes	_____ X	No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	_____ Yes	_____ X	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	_____ Yes	_____ X	No

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ Yes	_____ X	No
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Twin Cities Area Transportation Authority
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2005

Section I--Summary of Auditor's Results (Continued)

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.507	Federal Transit: Urbanized Area Formula Program--Capital and Operating Assistance

Dollar threshold used to distinguish
between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 Yes

 X

 No

Section II--Financial Statement Findings

REPORTABLE CONDITIONS

No matters were reported.

STATUTORY COMPLIANCE

No matters were reported.

Section III--Federal Award Findings and Questioned Costs

No matters were reported.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

November 9, 2005

Board of Trustees
Twin Cities Area Transportation Authority
275 East Wall Street
P.O. Box 837
Benton Harbor, Michigan 49023-0837

RE: Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Board Members:

We have audited the basic financial statements of Twin Cities Area Transportation Authority, a component unit of the City of Benton Harbor, as of and for the year ended September 30, 2005, and have issued our report thereon dated November 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether the Twin Cities Area Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Twin Cities Area Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal

course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, the board of trustees, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

November 9, 2005

Board of Trustees
Twin Cities Area Transportation Authority
275 East Wall Street
P.O. Box 837
Benton Harbor, Michigan 49023-0837

RE: Report on Compliance with Requirements Applicable to Each Major
Program and on Internal Control Over Compliance in Accordance With
OMB Circular A-133

Dear Board Members:

Compliance--We have audited the compliance of Twin Cities Area Transportation Authority with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended September 30, 2005. Twin Cities Area Transportation Authority's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Twin Cities Area Transportation Authority's management. Our responsibility is to express an opinion on Twin Cities Area Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Twin Cities Area Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Twin Cities Area Transportation Authority's compliance with those requirements.

In our opinion, Twin Cities Area Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2005.

Internal Control Over Compliance--The management of Twin Cities Area Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Twin Cities Area Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, the board of trustees, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division